Maybank Investment Strategy

February 2024

Summary

- Equity markets witnessed a mixed start to 2024 with the MSCI All-Country (AC) World index edging 0.6% higher. While both U.S. and Japan equities moved higher, Asia ex-Japan stocks underperformed with the main drag from China and South Korea. Sectors wise, technology outperformed while materials lagged.

- Meanwhile, global bonds were slightly lower with the 10-year U.S. Treasury (10Y UST) yield edging higher on less dovish Federal Reserve (Fed) policy expectations. Corporate bond returns were also subdued though spreads remaining tight relative to historical averages, particularly High Yield (HY) credits in developed markets (DM).

- Commodities wise, gold edged lower on a firmer U.S. dollar (USD) but remained above USD 2,000/ounce. Meanwhile, oil posted its first monthly gain since September last year as escalating Middle East tensions added to supply disruption concerns.

Macro Outlook and Investment Strategy

- With growth holding up and inflation moderating, the benign macro landscape remains supportive of the markets. Still, the economy is not without risks amid the uncertainties in policy expectations and geopolitics. Hence, we would focus on margin of safety and deploy solutions with downside protection to mitigate the risks.

- In view of the above, Fixed Income remains as our preferred asset class from a risk-adjusted basis. We continue to see attractive carry opportunities in Investment Grade (IG) bonds and would be prepared to add more duration exposure should long-end rates climb higher. In contrast, we maintain underweight on HY credits given the unfavourable risk reward.

- We maintain our preference for Asia ex-Japan equities and see merits in adopting a broader exposure beyond China to take advantage of the resilient growth in the region. We would also diversify beyond the U.S. mega-tech stocks to other value tech plays as well as sectors including healthcare and materials.

- In addition, energy stocks could serve as a good hedge should tensions in the Middle East situation and Russia-Ukraine escalate further. While gold is expected to remain range-bound, we would maintain some exposure in the precious metal given the diversification benefits.

Tactical Asset Allocation

Asset Class *		Segment*	
Equity	=	U.S.	=
		Europe	-
		Japan	=
		Asia ex-Japan	+
Fixed Income	+	Sovereigns	+
		Developed Market (DM) Investment Grade (IG)	+
		Developed Market High Yield (HY)	-
		Emerging Market (EM) Asia	=
Hedge Funds	=		
Gold	=		
Cash	-		

* Overweight : +, Neutral : =, Underweight : -
Source: Maybank Group Wealth Management Research

Asset Class	Changes to date (in USD currency)		
	1M	3M	FY23
MSCI AC World	0.6%	15.3%	22.8%
MSCI USA	1.6%	16.4%	27.1%
MSCI Europe	-0.1%	15.3%	20.7%
MSCI Japan	4.6%	18.6%	20.8%
MSCI Asia ex-Japan	-5.4%	4.7%	6.3%
China	-10.6%	-10.6%	-11.0%
Hong Kong	-9.7%	-4.7%	-14.8%
Taiwan	-1.2%	18.1%	31.3%
South Korea	-10.0%	11.7%	23.6%
India	2.4%	18.2%	21.3%
Singapore	-4.4%	4.7%	5.3%
Malaysia	-0.3%	4.3%	-3.5%
Indonesia	-1.6%	9.4%	8.4%
Thailand	-7.9%	-1.2%	-10.3%
Philippines	1.0%	14.0%	4.3%
Barclays Multiverse	-1.3%	8.0%	6.0%
U.S. Treasuries	-0.3%	6.7%	4.1%
Barclays Global IG	-0.7%	9.2%	9.2%
Barclays Global HY	-0.2%	9.4%	14.0%
EM Asia	0.3%	7.4%	7.1%
EM Asia IG	0.0%	7.1%	7.5%
EM Asia HY	2.6%	9.1%	4.7%
Gold	-1.1%	2.8%	13.1%
WTI Crude	5.9%	-6.4%	-10.7%
Dollar Index (DXY)	1.9%	-3.2%	-2.1%

Source : Bloomberg | 31 January 2024

Macro Outlook and Investment Strategy cont'd

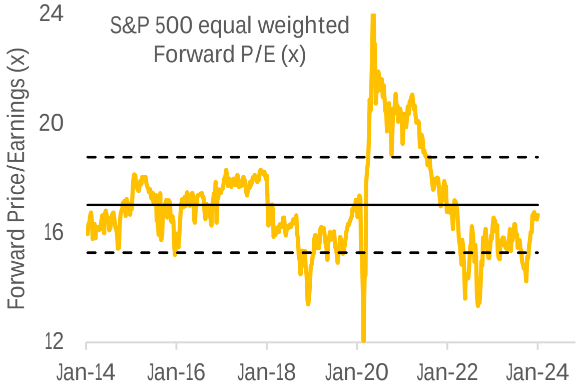
- The U.S. economy remained resilient on the back of better-than-expected 4Q23 annualised growth of 3.3%. Notably, the AtlantaFed GDP Nowcast is estimating 1Q24 annualised growth of 3%. Meanwhile, the Cleveland Fed Nowcast is suggesting headline consumer price index (CPI) to retreat to 3.0% year-on-year in January versus actual CPI of 3.4% in December. Still, we would keep an eye on the Red Sea and Panama Canal situation as trade flow disruption could lead to higher shipping costs and thus inflation.

- Notably, Fed Chair Jerome Powell indicated the central bank is unlikely to cut rates in March though he acknowledged policy rate has likely peaked for the current tightening cycle. We now expect the Fed to cut rates by 100 basis points (instead of 75) this year with the first cut likely to occur only in 2H24. While the 10Y UST yield may remain choppy in the near-term, it will likely trend towards 3.5% once there are clearer signs of moderating inflation. We continue to accumulate IG bonds, underpinned by our expectation of lower policy rates later this year, with yield in excess of 5% providing an attractive risk-reward proposition. Segments wise, we prefer European financials over non-financials with the former still trading at higher than historical average spreads. As for Singapore, we would seek new issue opportunities and trim exposure of existing issues particularly those that are exhibiting negative credit profile trajectory.

- While the S&P 500 valuation has become demanding, it is less so on a equal-weighted basis, suggesting opportunities in the broader market beyond the mega-tech stocks. We retain our positive view on healthcare and would tactically rebuild exposure in materials but neutralise our stance on consumer staples given the recent rebound. Separately, we remain cautious towards Europe equities but see attractive yield opportunities in energy and telecom plays. Meanwhile, the ongoing corporate reforms and easy monetary policy should continue to support the performance of Japan equities. Still, there is a need to be more selective with the market now expensive relative to history. We see value in selected technology companies and favour healthcare stocks as a laggard play.

- We maintain our preference for Asia ex-Japan equities despite China stocks witnessing a volatile start to the year. Notably, India equities outperformed in January and we expect the robust momentum to continue. The implementation of more forceful and coordinated pro-growth measures should also support at least a tactical rebound in China equities though the timing remains uncertain. Separately, Indonesia stocks may witness some near-term volatility given the upcoming election but the economy's structural growth story should remain intact. Overall, we advocate building a diversified regional exposure in Asia ex-Japan, with a particular focus on dividend plays in the region, for better portfolio resilience.

Figure 1: S&P 500 (equal weighted) is slightly below 10Y historical average forward P/E of 17x



Source: Bloomberg | 31 January 2024

Figure 2: MSCI Asia ex-Japan has delivered more resilient performance relative to MSCI China

*Indices rebased to 100 as of 1 January 2020

Source: Bloomberg | 31 January 2024

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